



# basic education

Department:  
Basic Education  
**REPUBLIC OF SOUTH AFRICA**

## NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**ACCOUNTING P1**

**NOVEMBER 2020(2)**

*Stanmorephysics.com*

**MARKS: 150**

**TIME: 2 hours**

**This question paper consists of 10 pages,  
a formula sheet and an 9-page answer book.**

## INSTRUCTIONS AND INFORMATION

Read the following instructions carefully and follow them precisely.

1. Answer ALL questions.
2. A special ANSWER BOOK is provided in which to answer ALL questions.
3. Show ALL workings to earn part-marks.
4. You may use a non-programmable calculator.
5. You may use a dark pencil or blue/black ink to answer questions.
6. Where applicable, show ALL calculations to ONE decimal point.
7. If you choose to do so, you may use the Financial Indicator Formula Sheet attached at the end of this question paper. The use of this formula sheet is NOT compulsory.
8. Write neatly and legibly.
9. Use the information in the table below as a guide when answering the question paper. Try NOT to deviate from it.

QUESTION	TOPIC	MARKS	MINUTES
1	Fixed Assets and Statement of Comprehensive Income	60	45
2	Financial Indicators and Cash Flow Statement	40	35
3	Interpretation of Financial Statements	35	30
4	Corporate Governance	15	10
<b>TOTAL</b>		<b>150</b>	<b>120</b>

**QUESTION 1: FIXED ASSETS AND STATEMENT OF COMPREHENSIVE INCOME**  
**(60 marks; 45 minutes)**

The information relates to Robbie Ltd for the financial year ended 28 February 2021.

**REQUIRED:**

**1.1 Refer to INFORMATION B(a) for fixed assets.**

Calculate the following:

1.1.1 The missing amounts denoted by (i) to (iii) on the Fixed Asset Note (11)

1.1.2 Profit/Loss on the sale of equipment on 1 October 2020 (2)

**1.2 Refer to INFORMATION B(e) for trading stock.**

Calculate the trading stock deficit. (4)

**1.3 Prepare the Statement of Comprehensive Income for the financial year ended 28 February 2021. (43)**

**INFORMATION:**

**A. Extract from the Pre-adjustment Trial Balance on 28 February 2021:**

	<b>R</b>
Mortgage loan: Sufi Bank	1 005 500
Debtors' control	123 000
Trading stock	?
Provision for bad debts (1 March 2020)	7 030
Sales	?
Cost of sales	6 966 000
Salaries and wages	1 468 120
Directors' fees	3 330 000
Audit fees	91 000
Repairs	476 000
Rent income	173 000
Interest income	25 000
Interest on loan	?
Bad debts	19 200
Advertising	25 680
Sundry expenses	452 310
Ordinary share dividends	86 400

**B. Adjustments and additional information:**

**(a) Fixed assets:**

**Vehicles:**

- The business owns two vehicles on 28 February 2021. The second vehicle was purchased on 1 November 2020.
- Vehicles are depreciated at 15% p.a. on cost.

### Equipment:

- Depreciation is 20% p.a. on the diminishing-balance method.
- Unused equipment was sold for R40 000 on 1 October 2020. Accumulated depreciation on the equipment sold was R36 600 on 1 March 2020.

### Extract of the Fixed Asset Note:

	VEHICLES	EQUIPMENT
Cost (1 Mar. 2020)	460 000	360 000
Accumulated depreciation (1 Mar. 2020)	(396 750)	(187 595)
<b>CARRYING VALUE (1 March 2020)</b>	<b>(i)</b>	<b>172 405</b>
Additions (at cost)	510 000	0
Disposals (at carrying value)	0	(iii)
Depreciation	(ii)	(31 281)
<b>CARRYING VALUE (28 February 2021)</b>		
Cost (28 Feb. 2021)	970 000	285 000
Accumulated depreciation (28 Feb. 2021)		

- (b) The business maintains a mark-up of 120% on cost. Note that trade discounts of R648 000 were granted to special customers.
- (c) The account of debtor B Melta, R800, must be written off.
- (d) Provision for bad debts must be adjusted to 5% of outstanding debtors.
- (e) Trading stock is valued on the weighted-average method. The Ledger Account and records reflect that 280 units should be on hand. However, the physical stock count reflects only 262 units on hand. The stock records are as follows:

	UNITS	UNIT PRICE	TOTAL
Stock at beginning of year	200	R3 600	R720 000
Purchased during the year	1 840	R4 100	R7 544 000
Returns: damaged units	40	R4 100	R164 000
Available for sale	2 000		R8 100 000
Stock units per records	280	?	?

- (f) 30% of the audit fees is still outstanding.
- (g) The monthly rent income did not change during the year. During February 2021 the tenant paid R9 000 for repairs to the premises, and deducted this from his rent for February 2021. Repairs are the responsibility of the company, and this was not recorded. The rent for March 2021 was received in advance.
- (h) The company has four directors earning the same fee. One director resigned on 31 May 2020 and received his fees up to this date. Another director is still owed fees for January and February 2021.
- (i) Advertising consists of a contract with a newspaper for the entire financial year. Payments are monthly, however instalments were paid for 11 months only. **NOTE:** The monthly rate decreased by R240 from 1 November 2020.
- (j) The net profit after tax was accurately calculated at R1 054 000. The income tax rate is 32%.



**QUESTION 2: FINANCIAL INDICATORS AND CASH FLOW STATEMENT**  
**(40 marks; 35 minutes)**

2.1 Choose the correct word(s) from those given in brackets. Write only the word(s) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

2.1.1 The (directors' report/audit report) gives an explanation of the operations of the company during a financial year.

2.1.2 The (independent/internal) auditors are responsible for monitoring the financial control measures of a company on a regular basis.

2.1.3 In the event of bankruptcy, the shareholders are normally not responsible for the debts of the business. This is because of (limited/unlimited) liability. (3 x 1) (3)

**2.2 USANDA LIMITED**

The financial year ended on 28 February 2021.

**REQUIRED:**

2.2.1 Calculate the following figures for the 2021 Cash Flow Statement:

- Income tax paid (4)
- Dividends paid (4)

2.2.2 Prepare the following sections of the Cash Flow Statement:

- Cash effects for financing activities (11)
- Net change in cash and cash equivalents (4)

2.2.3 Calculate the following financial indicators for the year ended 28 February 2021:

- % operating profit on sales (2)
- Acid-test ratio (4)
- % return on average shareholders' equity (ROSHE) (4)
- Dividend payout rate (%) (4)

**INFORMATION:**

**A. Extract: Statement of Comprehensive Income for the year ended 28 February 2021:**

Sales	R17 800 000
Operating profit	2 262 100
Interest on loan (capitalised)	270 000
Net profit before tax	1 777 000
Net profit after tax	1 243 900

**B. Extract: Statement of Financial Position:**

	28 February 2021	29 February 2020
Fixed assets (carrying value)	R13 650 600	R13 590 000
Current assets	659 500	1 067 500
Inventories	276 500	373 200
Trade and other receivables	262 300	539 600
Cash and cash equivalents	120 700	154 700
Shareholders' equity	9 891 400	11 985 000
Ordinary share capital	9 555 000	11 220 000
Retained income	336 400	765 000
Loan: VBC Bank (see E)	?	2 080 000
Current liabilities	611 900	592 500
Trade and other payables	252 100	185 700
Bank overdraft	0	90 000
SARS: Income tax	19 800	69 300
Shareholders for dividends	340 000	247 500

**C. Share capital:**

DATES	NUMBER OF SHARES	DETAILS OF SHARES
1 March 2020	1 650 000	In issue
30 October 2020	50 000	Additional shares issued
27 February 2021	335 000	Shares repurchased at R9,50 each
28 February 2021	1 365 000	In issue

**D. Dividends and earnings:**

- An interim dividend was paid on 31 August 2020.
- A final dividend of 20 cents per share was declared on 28 February 2021.
- Total dividends for the year amounted to R835 000.
- Earnings per share (EPS) on 28 February 2021 was 74 cents.

**E. Loan: VBC Bank**

- The balance on 1 March 2020 was R2 080 000.
- Monthly instalments of R35 000, including interest, were paid.
- Interest capitalised amounted to R270 000.

**QUESTION 3: INTERPRETATION OF FINANCIAL STATEMENTS**

**(35 marks; 30 minutes)**

- 3.1 Choose the question from COLUMN B that matches a category of financial indicators in COLUMN A. Write only the letter (A–E) next to the question numbers (3.1.1 to 3.1.4) in the ANSWER BOOK.

COLUMN A	COLUMN B
3.1.1 Liquidity	A Is the business managing expenses effectively to increase profitability?
3.1.2 Risk and gearing	B Is the investment in the company better than investing in a fixed deposit?
3.1.3 Return to shareholders	C Will the company be able to pay off its current debts?
3.1.4 Operating efficiency	D Will the company be able to pay off all its debts using existing assets?
	E How is the company managing loans or borrowed capital?

(4 x 1) (4)

**3.2 SCI-FI GEEKS LTD**

The business trades in electronic equipment purchased from China. The information relates to the past two financial years, ended 31 March. The COVID-19 lockdown has negatively affected sales over the current financial year.

**REQUIRED:**

**3.2.1 Liquidity:**

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

(6)

**3.2.2 Dividends:**

The directors changed the dividend policy for the current financial year.

- Comment on the dividend per share over the two years. Quote figures. (2)
- Explain the change in the dividend payout rate and give a reason for this change. Quote figures. (4)
- A shareholder felt that they should be satisfied with the dividends they received, as it is better than last year. Explain why you agree with him. Quote figures. (3)

**3.2.3 Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).**

(6)

- 3.2.4 Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures. (6)
- 3.2.5 The Cash Flow Statement reflected a positive change of R980 000. Provide TWO points why this should still be a concern to directors. Quote figures. (4)



**INFORMATION:**

**A. Financial indicators and additional information:**

	2021	2020
Mark-up % achieved	60%	60%
% net profit before tax on sales	13,9%	20,3%
Current ratio	2,4 : 1	1,1 : 1
Acid-test ratio	1,0 : 1	0,4 : 1
Stockholding period	102 days	32 days
Average debtors' collection period	46 days	31 days
Average creditors' payment period	60 days	60 days
Earnings per share	58 cents	130 cents
Dividends per share	72 cents	90 cents
Dividend payout rate	136,5%	69%
Debt-equity ratio	0,4 : 1	0,3 : 1
Return on average shareholders' equity	17,7%	31,6%
Return on total capital employed	23,2%	39%
Net asset value per share	332 cents	409 cents
Market price of shares on stock exchange	410 cents	540 cents
Interest rate on loans	13,5%	13,5%
Interest rate on fixed deposits	6,8%	7,8%

**B. Share capital:**

- On 1 April 2020 the company issued an additional 250 000 shares.
- On 31 March 2021 there were 1 250 000 shares in issue.

**C. Extract from the Cash Flow Statement on 31 March:**

	2021	2020
Cash flows from operating activities	(148 080)	910 000
Cash generated from operations	1 281 620	
Interest paid	(232 000)	
Taxation paid	(272 700)	
Dividends paid	(925 000)	
Cash flows from investing activities	101 580	(300 000)
Cash flows from financing activities	1 026 500	(100 000)
Sale of shares	375 000	0
Change in loan	651 500	(100 000)
Cash and cash equivalents: Net change	980 000	510 000
Opening	(330 000)	(840 000)
Closing	650 000	(330 000)

## QUESTION 4: CORPORATE GOVERNANCE

(15 marks; 10 minutes)

Shareholders and employees associated with a company will be particularly interested in whether the company is well governed and managed by the directors.

At the AGM, the shareholders will elect two types of directors:

- **Executive directors:** They attend board meetings and work at the company on a full-time basis.
- **Non-executive directors:** They attend board meetings and do NOT work at the company.

You are provided with four aspects of corporate governance that will be of concern to the stakeholders.

### REQUIRED:

#### 4.1 Audit Report:

Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

(4)

#### 4.2 The Board of Directors:

Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

(4)

#### 4.3 The Remunerations Committee:

According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

(3)

#### 4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points.

(4)

**15**

**TOTAL: 150**

**GRADE 12 ACCOUNTING FINANCIAL INDICATOR FORMULA SHEET**

$\frac{\text{Gross profit}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1}$
$\frac{\text{Net profit before tax}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Net profit after tax}}{\text{Sales}} \times \frac{100}{1}$
$\frac{\text{Operating expenses}}{\text{Sales}} \times \frac{100}{1}$	$\frac{\text{Operating profit}}{\text{Sales}} \times \frac{100}{1}$
Total assets : Total liabilities	Current assets : Current liabilities
(Current assets – Inventories) : Current liabilities	Non-current liabilities : Shareholders' equity
(Trade & other receivables + Cash & cash equivalents) : Current liabilities	
$\frac{\text{Average trading stock}}{\text{Cost of sales}} \times \frac{365}{1}$	$\frac{\text{Cost of sales}}{\text{Average trading stock}}$
$\frac{\text{Average debtors}}{\text{Credit sales}} \times \frac{365}{1}$	$\frac{\text{Average creditors}}{\text{Cost of sales}} \times \frac{365}{1}$
$\frac{\text{Net income after tax}}{\text{Average shareholders' equity}} \times \frac{100}{1}$	$\frac{\text{Net income after tax}}{\text{Number of issued shares}} \times \frac{100}{1}$ (*See note below)
$\frac{\text{Net income before tax} + \text{Interest on loans}}{\text{Average shareholders' equity} + \text{Average non-current liabilities}} \times \frac{100}{1}$	
$\frac{\text{Shareholders' equity}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Interim dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$	$\frac{\text{Final dividends}}{\text{Number of issued shares}} \times \frac{100}{1}$
$\frac{\text{Dividends per share}}{\text{Earnings per share}} \times \frac{100}{1}$	$\frac{\text{Dividends for the year}}{\text{Net income after tax}} \times \frac{100}{1}$
$\frac{\text{Total fixed costs}}{\text{Selling price per unit} - \text{Variable costs per unit}}$	

**NOTE:**

- \* In this case, if there is a change in the number of issued shares during a financial year, the weighted-average number of shares is used in practice.



STICKER

CENTRE NUMBER

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EXAMINATION NUMBER

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**NATIONAL SENIOR CERTIFICATE**

**ACCOUNTING P1**

**GRADE 12**

**NOVEMBER 2020(2)**

***SPECIAL ANSWER BOOK***

QUESTION	MARKS	INITIAL	MOD.
1			
2			
3			
4			
TOTAL			

This answer book consists of 9 pages.

**QUESTION 1**

<b>1.1.1</b>	<b>(i) Calculate: Carrying value of the vehicle on hand on 1 March 2020</b>		
	<b>Workings</b>	<b>Answer</b>	
			2
	<b>(ii) Calculate: Depreciation on vehicles for the year</b>		
	<b>Workings</b>	<b>Answer</b>	
			5
	<b>(iii) Calculate: Carrying value of equipment sold</b>		
	<b>Workings</b>	<b>Answer</b>	
			4
<b>1.1.2</b>	<b>Calculate: Profit/Loss on the sale of equipment</b>		
	<b>Workings</b>	<b>Answer</b>	
			2
<b>1.2</b>	<b>Calculate: Trading stock deficit</b>		
	<b>Workings</b>	<b>Answer</b>	
			4

**NOTE:** The relevant figures calculated above must be transferred to the Statement of Comprehensive Income.

**1.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED  
 28 FEBRUARY 2021**

<b>Sales</b>	
<b>Cost of sales</b>	<b>(6 966 000)</b>
<b>Other income</b>	
<b>Gross operating profit</b>	
<b>Operating expenses</b>	
<b>Salaries and wages</b>	<b>1 468 120</b>
<b>Depreciation</b>	
<b>Sundry expenses</b>	<b>452 310</b>
<b>Operating profit</b>	
<b>Profit before interest expense</b>	
<b>Interest expense</b>	
<b>Net profit before tax</b>	
<b>Net profit after tax</b>	<b>1 054 000</b>

<b>43</b>

<b>TOTAL MARKS</b>
<b>60</b>

## QUESTION 2

2.1

2.1.1	
2.1.2	
2.1.3	

3

2.2 USANDA LIMITED

2.2.1

Calculate: Income tax paid	
Workings	Answer
Calculate: Dividends paid	
Workings	Answer

4

4

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES	

11

NET CHANGE IN CASH AND CASH EQUIVALENTS	
Cash (opening balance)	
Cash (closing balance)	

4

### 2.2.3 Calculate financial indicators for the year ended 28 February 2021:

<b>% operating profit on sales</b>		
<b>Workings</b>	<b>Answer</b>	
		2
<b>Acid-test ratio</b>		
<b>Workings</b>	<b>Answer</b>	
		4
<b>% return on average shareholders' equity (ROSHE)</b>		
<b>Workings</b>	<b>Answer</b>	
		4
<b>Dividend payout rate (%)</b>		
<b>Workings</b>	<b>Answer</b>	
		4

<b>TOTAL MARKS</b>
40

### QUESTION 3

3.1

3.1.1	
3.1.2	
3.1.3	
3.1.4	

4

3.2 SCI-FI GEEKS LTD

3.2.1

The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.

6

3.2.2

Comment on the dividend per share over the two years. Quote figures.

2

Explain the change in the dividend payout rate. Quote figures.

Give a reason for this change.

4

A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.



3



**3.2.3** Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).

6

**3.2.4** Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.

6

**3.2.5** The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.

4

<b>TOTAL MARKS</b>
<b>35</b>

**QUESTION 4**

- 4.1** Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.

4

- 4.2** Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.

4

- 4.3** According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.

Explain the role/responsibility of this committee and give a reason why this committee is necessary.

**EXPLANATION:**

**REASON:**

3

c

- 4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.

Explain why there should be a company policy that directors must declare to the Board all gifts, donations or favours received by them from clients. Provide TWO points.

4

TOTAL MARKS
15

TOTAL: 150





# basic education

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## NATIONAL SENIOR CERTIFICATE

**GRADE 12**

**ACCOUNTING P1**

**NOVEMBER 2020(2)**

**MARKING GUIDELINES**

**MARKS: 150**

### MARKING PRINCIPLES:

1. Unless otherwise stated in the marking guidelines, penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item (no penalty for misplaced item). No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as a final figure, allocate the part-mark for the working for that figure (not the method mark for the answer). Note: if figures are stipulated in memo for components of workings, these do not carry the method mark for final answer as well.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in certain questions.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer.
10. Operation means 'check operation'. 'One part correct' means operation and one part correct. Note: check operation must be +, -, x, ÷, or per memo.
11. In calculations, do not award marks for workings if numerator & denominator are swapped – this also applies to ratios.
12. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect at least in part. Indicate with a ☒.
13. Be aware of candidates who provide valid alternatives beyond the marking guideline. Note that one comment could contain different aspects.
14. Codes: f = foreign item; p = placement/presentation.

**These marking guidelines consist of 9 pages.**

## QUESTION 1

1.1.1

(i) Calculate: Carrying value of the vehicle on hand on 1 March 2020		
	Workings	Answer
	460 000 – 396 750	63 250 ✓✓
(ii) Calculate: Depreciation on vehicles for the year		
	Workings	Answer
	25 500 two marks $(510\,000 \times 15\% \times 4/12)$ ✓✓ one part correct $460\,000 \times 15\% = 69\,000$ ; CV is 63 250. Depreciation is therefore $63\,250 - R1,00 = 63\,249$ ✓✓	25 500 + 63 249 two marks two marks 88 749 ✓ one part correct
(iii) Calculate: Carrying value of equipment sold		
	Workings	Answer
	Choose one line $360\,000 - 285\,000 - 41\,080$ 2 marks $75\,000$ ✓ – $36\,600$ ✓ – $4\,480$ ✓ OR: $75\,000$ ✓ – ( $36\,600$ ✓ + $4\,480$ ✓) OR: $360\,000 - 285\,000 - 41\,080$ [ one mark ] two marks $-360\,000 + 285\,000 + 41\,080$	$33\,920$ ✓ one part correct

1.1.2

Calculate: Profit/Loss on the sale of equipment		
	Workings	Answer
	See (iii) above $40\,000 - 33\,920$ OR $-40\,000 + 75\,000 - 41\,080$	If $40\,000 - (iii)$ No part marks $6\,080$ ✓✓

1.2

Calculate: Trading stock deficit		
	Workings	Answer
	18 two marks ✓ ✓ ✓ $(280 - 262) \times 4\,050$ 280 one mark 262 one mark 4 050 one mark $(280 \times 4\,050) - (262 \times 4\,050)$ $1\,134\,000 - 1\,061\,100$	$R72\,900$ ✓/# # if $\times 4\,050$

**NOTE:** The relevant figures calculated above must be transferred to the Income Statement.

### 1.3 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2021

ignore brackets – check if operation is correct

# also award from bottom up if COS calc is done \*one part correct

<b>Sales</b> 15 325 200 ✓✓ – 648 000 ✓✓ OR (6 966 000 X 1,2) + 6 966 000 – 648 000 6 966 000 x 2,2	14 677 200	✓*#
<b>Cost of sales</b>	(6 966 000)	
<b>Gross profit</b> 6 966 000 x 1,2 8 359 200 – 648 000 three marks if not awarded for sales 5	S – COS 7 711 200	✓
<b>Other income</b> Operation	175 000	✓*
<b>Profit on sale of asset*</b> see 1.1.2 (loss will be in operating expenses)	6 080	✓
<b>Rent income</b> 173 000 ✓✓ + 9 000 ✓✓ – 14 000 ✓✓ OR 182 000 – 14 000 two marks OR 173 000 – 5 000 one mark OR 182 000 X 12/13 three marks two marks two marks two marks	168 000	✓*
<b>Provision for bad debts</b> adjustment 7 030 – 6 110	920	✓✓*
<b>Gross operating profit</b> Operation 10	GP + OI 7 886 200	✓
<b>Operating expenses</b> Operation	(6 286 200)	✓*
<b>Salaries and wages</b>	1 468 120	
<b>Depreciation</b> 31 281 ✓ + 88 749 ✓✓ see 1.1.1 (ii)	120 030	✓*
<b>Trading stock</b> deficit see 1.2	72 900	✓
<b>Directors' fees</b> 3 330 000 ✓✓ + 180 000 ✓✓ or x 39/37 3 330 000 x 2/37 or 90 000 x 39 Alternative: 3 330 000 + 135 918 (OR x 51/49) = 3 465 918	3 510 000	✓*
<b>Audit fees</b> 91 000 ✓✓ + 39 000 ✓✓ OR 91 000 / 0,7 OR x100/70 91 000 + (91 000 x 30/70)	130 000	✓*
<b>Repairs</b> 476 000 + 9 000 if final figure is 476 000 OR 9 000 one mark	485 000	✓✓*
<b>Bad debts</b> 19 200 + 800 if final figure is 19 200 OR 800 one mark	20 000	✓✓*
<b>Advertising</b> 25 680 ✓✓ + 2 400 ✓✓ – 240 ✓✓ (2 400 x8) + (2 160 x4) OR: (2 400 X 12) – (240 X 4)	27 840	✓*
<b>Sundry expenses</b>	452 310	
<b>Operating profit</b> accept negative depending on figures in this column 22	GOI – OE 1 600 000	✓
<b>Interest income</b>	25 000	✓
<b>Profit before interest expense</b> Operation	OP + INT 1 625 000	✓
<b>Interest expense</b> Profit before interest expense – NPbT Accept a positive balancing figure	(75 000)	✓
<b>Net profit before tax</b> 1 054 000 + Income tax 1 054 000 x 100 / 68 two marks	NP + IT 1 550 000	✓
<b>Income tax for the year</b> 1 054 000 x 32/68 If balancing figure, award one mark	(496 000)	✓✓
<b>Net profit after tax</b> 6	1 054 000	

-1 foreign items i.e. B/S items (max -2); for misplaced items, award marks for workings only (not the final answer)

TOTAL MARKS

60

43



## QUESTION 2

2.1

2.1.1	Directors' report ✓
2.1.2	Internal ✓
2.1.3	Limited ✓

3

## 2.2 USANDA LIMITED

2.2.1

Calculate: Income tax paid			Answer	
Workings				
$(1\,777\,000 - 1\,243\,900)$ one mark $69\,300 \checkmark + 533\,100 \checkmark - 19\,800 \checkmark$ Alternative presentations: Mark ONE alternative only $- 69\,300 - 533\,100 + 19\,800$ $(69\,300) + (533\,100) + 19\,800$			$R582\,600 \checkmark$ one part correct	
	19 800	69 300		
	582 600	533 100		

  

Calculate: Dividends paid			Answer	
Workings				
$495\,000$ two marks $247\,500 \checkmark + (835\,000 \checkmark - 340\,000 \checkmark)$ Alternative presentations: Mark ONE alternative only $- 247\,500 - 835\,000 + 340\,000$ $(247\,500) + (835\,000) + 340\,000$			$R742\,500 \checkmark$ one part correct	
	340 000	247 500		
	742 500	835 000		

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\*one part correct # correct use of bracket or not to earn the method mark on answer

2.2.2

CASH EFFECTS OF FINANCING ACTIVITIES		(2 652 500) $\checkmark^*$
Proceeds from shares issued $335\,000$ one mark $\times R7,00$ one mark $9\,555\,000 \checkmark + 2\,345\,000 \checkmark \checkmark - 11\,220\,000 \checkmark$ <b>OR</b> Be aware of different methods e.g. T-acc or reversed signs $-9\,555\,000 - 2\,345\,000 + 11\,220\,000$ <b>Note:</b> The 50 000 is not used in this calculation because the R680 000 is the balancing figure in the OSC note		680 000 $\checkmark \checkmark^* \#$
Funds used to repurchase shares $3\,182\,500$ one mark if no bracket $335\,000 \times R9,50$		(3 182 500) $\checkmark \checkmark$
Change in loan $2\,080\,000 - 1\,930\,000$ or $270\,000 - 420\,000$ $(2\,080\,000 - 420\,000 + 270\,000)$ $35\,000 \times 12$		(150 000) $\checkmark \checkmark^* \#$

  

NET CHANGE IN CASH AND CASH EQUIVALENTS		56 000 $\checkmark^*$
Cash (opening balance) $154\,700 - 90\,000$ must not be bracketed		64 700 $\checkmark \checkmark$
Cash (closing balance)		120 700 $\checkmark$

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**2.2.3 Calculate financial indicators for the year ended 28 February 2021:**

# Note: 100 does not count as 'one part correct' for the method mark

% operating profit on sales	
Workings	Answer
$\frac{2\,262\,100}{17\,800\,000} \times \frac{100}{1}$ <p>Expressed as a % (sign not necessary)</p>	<p>one part correct</p> <p>12,7%✓☑#</p> <p>accept 12,7 two marks</p> <p>accept 13 two marks</p>
Acid-test ratio	
Workings	Answer
<p>(659 500 – 276 500) two marks</p> <p>or (262 300 + 120 700) two marks</p> <p>383 000✓✓</p>	<p>one part correct</p> <p>0,6 :1☑</p> <p>Do not accept 1 : 1</p> <p>as x : 1; not 0,6 on its own</p> <p>Accept 0,63 : 1</p>
% return on average shareholders' equity (ROSHE)	
Workings	Answer
$\frac{1\,243\,900 \checkmark}{\frac{1}{2} \checkmark (11\,985\,000 + 9\,891\,400) \checkmark} \times 100$ <p>21 876 400 one mark</p> <p>10 938 200 two marks</p> <p>Expressed as a % (sign not necessary) Not 0,114</p>	<p>one part correct</p> <p>11,4%☑#</p> <p>Accept 11,37% or 11%</p>
Dividend payout rate (%)	
Workings	Answer
<p>30 cents or R0,3 + 20 cents or R0,2; one mark each (assume R or c if no signs)</p> <p>Must be consistent with calculation</p> $\frac{50 \text{ cents} \checkmark \checkmark}{74 \text{ cents} \checkmark} \times \frac{100}{1}$ <p>one mark</p> <p>OR <math>\frac{R835\,000}{R1\,243\,900} \times \frac{100}{1}</math> (2021 Total dividend) (2021 NPATax)</p> <p>two marks</p> <p>Expressed as a % (sign not necessary) Not 0,676</p>	<p>67,6% ☑#</p> <p>one part correct</p> <p>or</p> <p>67,1%</p> <p>Accept 67% / 68%</p>

**TOTAL MARKS****40**

**QUESTION 3****3.1**

<b>3.1.1</b>	C ✓
<b>3.1.2</b>	E ✓
<b>3.1.3</b>	B ✓
<b>3.1.4</b>	A ✓

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**3.2****SCI-FI GEEKS LTD** If candidates give more required number of indicators, -1 for any *inappropriate* one (max -1) in Q3.2**3.2.1**

**The directors are satisfied with the improvement in the current ratio and the acid-test ratio. Explain why you would disagree with them. Quote TWO financial indicators in your response.**

Financial indicators ✓ ✓ Figures ✓ ✓ Explanation ✓✓

part marks for incomplete, partial or unclear answer

- The stock holding period increased (from 32 days) to 102 days (or 70 days)
- Average debtors' collection period increased (from 31 days) to 46 days (15 days)
- Current ratio increased (from 1,1 :1) to 2,4 : 1 / by 1,3 : 1
- Acid-test ratio increased (from 0,4 : 1) to 1 : 1 / by 0,6 : 1

Any ONE valid explanation; part marks for incomplete / unclear explanation

- Too much liquid assets (cash) tied up in stock reflects that there is an over-investment in stock / the difference in current & acid-test ratios reflects stock piling.
- High stock volumes create security problems
- Stock can easily become obsolete due to advancements in technology (can't be sold)
- The business has relaxed / neglected its collection policies / lockdown during Covid-19 and this impacts on the debtors / stock / cash flow of the business.

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**3.2.2****Comment on the dividend per share over the two years. Quote figures.**

ONE valid comment ✓ Figures ✓

The DPS dropped from 90 cents to 72 cents / by 18 cents / by 20%

2

**Explain the change in the dividend payout rate. Quote figures.**

Explanation ✓ Figures ✓

The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year

**Give a reason for this change.**

ONE valid point ✓✓ part marks for incomplete, partial or unclear answer

- Directors attempted to please the shareholders for the low profitability
- Compensation for using funds retained in previous financial years.
- No plans for growth / expansions (no need to retain additional funds)

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**A shareholder felt that they should be satisfied with the dividends they received as it is better than last year. Explain why you agree with him. Quote figures.**

Explanation with a comparison to another factor apart from the payout rate ✓✓

Any valid figure ✓

**Responses for 3 marks:**

- The drop in the market price from 540 cents to 410 cents (reflects a dividend yield DPS/MP of 17,7% this year compared to 16,7% last year) / If the policy was maintained at 69% of EPS, they would have received 40 cents.

**Example of responses for two marks:**

- EPS dropped from 130c to 58c (by 72 cents / 55%) but DPS dropped from 90c to 72c (by 18 cents / 20%)
- The dividend pay-out rate increased from 69% (90/130) to 136,5% or 72/58 (accept 124,1%) / or a 97,8% increase from the previous year.

**Example of responses for one mark:**

- The dividend pay-out rate increased.

3

3.2.3

**Comment on the risk and gearing for both years. Quote TWO financial indicators (with figures).**

✓ Debt/equity ratio increased (from 0,3 : 1) to 0,4: 1 (or by 0,1 : 1) ✓

✓ ROTCE decreased (from 39%) to 23,2% (or 15,8%) ✓

Any valid comment on the above ✓✓ **part marks for incomplete, partial or unclear answers**

- Increased borrowing not effectively used to increase / improve profitability.
- Although still positively geared (ROTCE exceeds interest rate), the drop in profitability / downward trend is a concern.
- Although there is low financial risk, the company is more reliant on own capital.

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3.2.4

**Existing shareholders are dissatisfied that the new shares issued on 1 April 2020 were sold to the CEO, Ida Shark. Give TWO reasons why you consider their feelings to be justified. Quote figures.**

Candidates must provide two reasons, which may be embedded in one explanation.

Any two different reasons: ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Ethical reasons e.g. This is a very low price and the CEO is exercising undue influence over the issue price / receiving preferential treatment / against the Companies Act or King Code / lack of transparency
- Market-related reasons e.g. the company is losing out on additional funding as shares could have been sold at a price in that range, or on the stock exchange

Relevant figures (any two): ✓ ✓

The selling price of these shares (250 000) is 150 cents each (R375 000 in total) / market price of 410c exceeds NAV of 332c.

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3.2.5

**The Cash Flow Statement reflected a positive change in R980 000. Provide TWO points why this should still be a concern to directors. Quote figures.**

TWO points ✓ ✓ Figures ✓ ✓

Expected responses for one mark each, figures one mark each:

- Cash flow from operating activities is negative R148 080
- Additional shares issued, R375 000
- Financing activities increased by R1 026 500
- Large increase in loan, R651 500 / high interest payment R232 000
- Very high payment for dividends, R925 000
- Cash from investing activities, R101 580

4

**TOTAL MARKS**

**35**

**QUESTION 4****4.1 Explain why a qualified audit report is not a good reflection of a company. Provide TWO points.**

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Certain information on financial statements are not clear / missing.
- There is insufficient audit evidence for significant items; Auditors cannot verify certain information.
- Lack of internal controls; possible negligence or colluding.
- Negative impact in the future; consequences on the image / share price due to decreased demand for shares (from potential shareholders)
- Existing shareholders might decide to sell their shares

4

**4.2 Explain why it is important for a company to include non-executive as well as executive directors on the Board of Directors.**

TWO points ✓✓ ✓✓ part marks for incomplete, partial or unclear answers

- Executive directors are involved with internal functioning (operations) of the company / hands-on / decisions may be based on a narrow view.
- Non-executive directors have a wider perspective of the business environment; and act in the best interest of the company.
- The non-executive directors would exercise a watch-dog role; keep executive directors in check.
- More regular inputs than an internal auditor or other directors.
- Their inputs would be unbiased and independent.
- They share accountability with the other directors / more people have the interests of the company in mind.
- Executive directors would be more vigilant and professional in their duties / not tempted to engage in unethical activities.
- The more directors there are, the more opinions will be generated, which could benefit the company.
- The non-executive directors can be paid less than the other directors (because they do not work permanently in the company).

4

**4.3 According to the Companies Act, 2008 (Act 11 of 2008), a company must have a Remunerations Committee.****Explain the role/responsibility of this committee and give a reason why this committee is necessary.****EXPLANATION:** ✓ Note: Mark for explanation could be embedded in the reason

Review all salaries, bonuses and other earnings

To prevent directors from paying themselves too much

They must approve, and give advice on the proposals re fees, bonuses etc.

**REASON:** ✓✓ part marks for incomplete, partial or unclear answers

- To ensure fairness / transparency in the payment of fees/salaries
- To prevent fraud / corruption / wastage
- Detect mismanagement or fraudulent activities
- They can compare the remuneration / earnings against financial information of other companies in the industry / fairness to workers

3



**4.4 Directors engage with clients on a regular basis in an effort to negotiate contracts and to increase sales and services.**

**Explain why there should be a company policy for all gifts, donations or favours received by the directors from clients to be declared to the board by the directors concerned. Provide TWO points.**

TWO points ✓✓ ✓✓ **part marks for incomplete, partial or unclear answers**

- Transparency in awarding contracts, tenders or appointing service providers;
- Could result in not appointing the best suited client for the job / not adhering to or flouting company policy.
- Policy would prevent colluding with service providers.
- Directors / service providers would know the consequences of not abiding by policy and therefore not be tempted to engage in fraudulent activities / corruption.
- This could be viewed as bribery for contracts.
- This could be viewed as nepotism (if family and friends involved).
- To protect the image of the business.
- Conflict of interest (which could be corrupt / fraudulent).

4

<b>TOTAL MARKS</b>
15

**TOTAL: 150**